

PayProp Rental Index Q2 2014

The only comprehensive report on the state of the
residential rental market in South Africa

APRIL – JUNE 2014

Post-recovery stabilisation

Last year was marked by a steady recovery in the rental market, with growth in average rentals soaring from below 5% towards the end of 2012 to a record high of 10,31% in October 2013. Our prediction at the time was that this figure would stabilise at the 8% - 10% level – a position borne out by the facts in this quarter's index. Year-on-year growth rates have held steady at 8,9% for each of the three months of the second quarter.

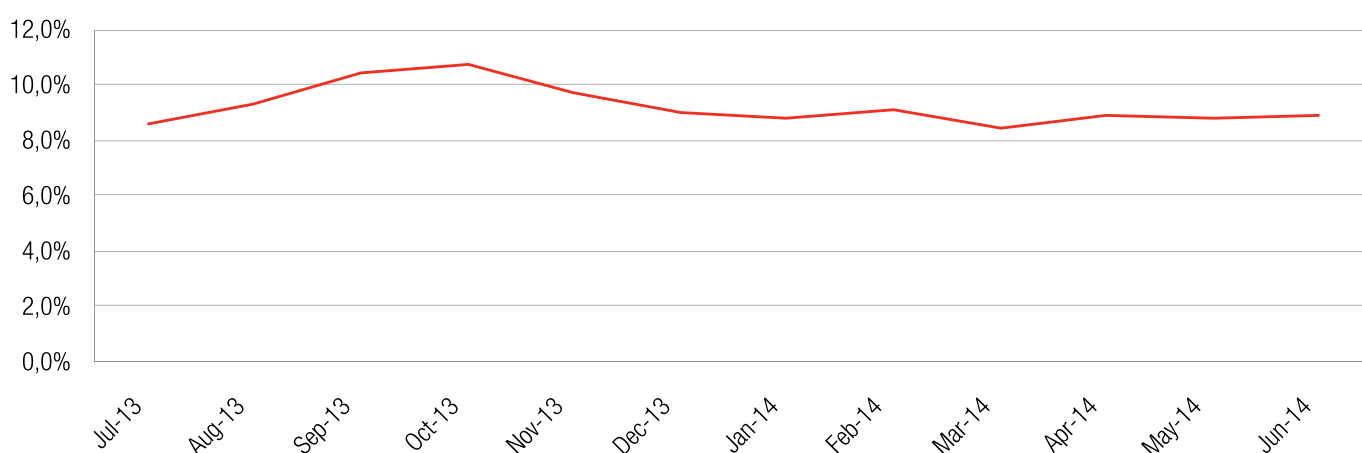
Our view is that we may well see this sliding back slightly in coming months, as interest rate hikes and inflation affect credit-dependent consumers, but owners won't easily let it dip below 8%, as their cost of capital has also increased.

As a result of this stable growth, the weighted average national rental at the end of this quarter was R6 144 – up 3,5% from the R5 934 tenants paid at the end of Q1.



Weighted average national rental

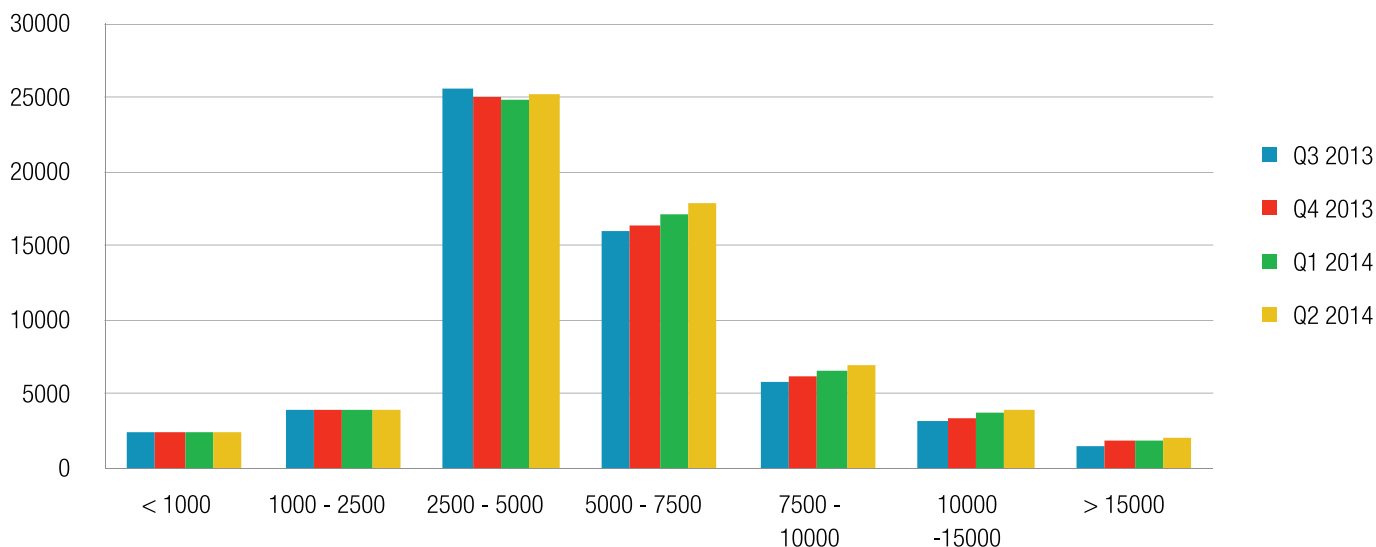
Source: PayProp



Year-on-year percentage change in rentals

Source: PayProp

Growth in the R5 000 - R7 500 and R7 500 - R10 000 price bands is the reason for the steady overall growth. By contrast, growth in the R10 000 - R15 000 and R15 000+ price categories has started to even out, with year-on-year increases in the number of rentals in these categories dropping back from 10% to 8% and 16% to 6% respectively since Q3 2013.

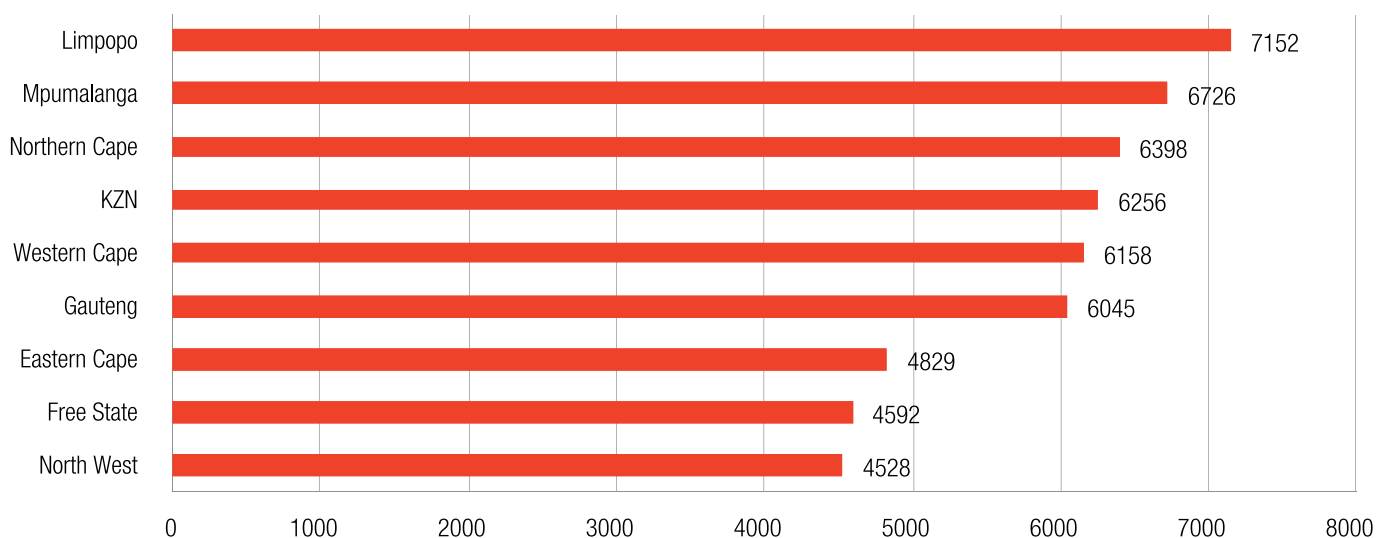


Rentals by price category

Source: PayProp

Limpopo stays ahead

Limpopo continues to lead the other provinces with an average rental of R7 152 per month. Despite its stabilised growth, it remains the most expensive province to rent a property in South Africa. It is interesting to note that Mpumalanga, the other record-setting province, has also experienced a stabilisation in its growth rate. Considering the industrial and mining base of both of these areas it is plausible that the protracted strikes could have put a dampener on the rental growth of these areas in the short to medium term.

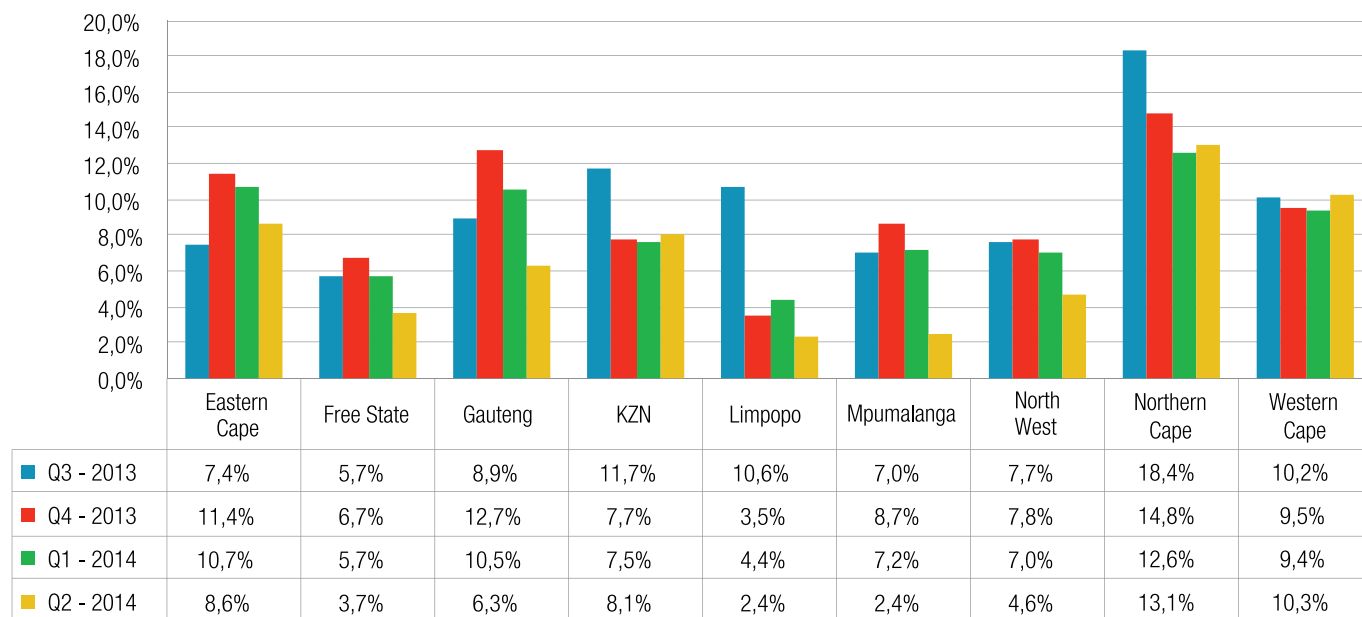


Provincial average rentals

Source: PayProp

The Northern Cape, in the meantime, continued its meteoric rise, sustaining double digit growth rates for the fourth quarter in a row as a result of increasing mining activity in the area. At the opposite end of the spectrum, we see the effect of the platinum strikes on the North West, where year-on-year growth rates are still declining.

Areas such as Gauteng, Western Cape and KZN remain on an impressive yet stable growth path, while we see a continuing decline in the Free State. At the current rate, we can expect a flat growth scenario in average rental values in that province by the end of the year.



Provincial growth rates

Source: PayProp

Top towns

Lephalale once again retains its top spot on the board as the town with the highest rental in South Africa. Lower down on the list there has been minimal movement, with most of the 'usual suspects' retaining their positions.

Top Towns	2013 Q3	2013 Q4	2014Q1	2014 Q2
Lephalale	R 16 003	R 19 052	R 19 811	R 19 439
Sea Point	R 14 645	R 16 332	R 16 249	R 17 656
Musina	R 16 523	R 16 052	R 16 621	R 14 901
Hout Bay	R 12 127	R 11 771	R 11 740	R 13 101
Umhlanga Rocks	R 13 451	R 14 436	R 12 787	R 10 859
Green Point	R 13 311	R 10 145	R 10 208	R 10 203
Hillcrest	R 8 179	R 8 579	R 9 722	R 9 675
White River	R 8 637	R 10 641	R 10 914	R 10 212
Claremont	R 9 080	R 9 567	R 9 925	R 9 808
Mowbray	R 9 328	R 9 744	R 10 737	R 9 774
Nahoon	R 9 259	R 9 252	R 9 373	R 9 463
Belfast	R 10 179	R 12 431	R 12 372	R 10 042
Glenvista	R 8 221	R 8 384	R 8 641	R 8 811
Gardens	R 7 900	R 10 504	R 8 428	R 8 810
Sandton	R 8 331	R 8 403	R 9 252	R 9 015
Wierda Valley	R 8 669	R 8 676	R 8 837	R 8 801
Port Shepstone	R 6 909	R 7 117	R 7 135	R 8 060
Randpark Ridge	R 8 980	R 9 755	R 8 531	R 8 646
Constantia	R 7 990	R 8 145	R 8 376	R 8 783
Umhlanga Ridge	R 7 403	R 7 838	R 8 069	R 8 389



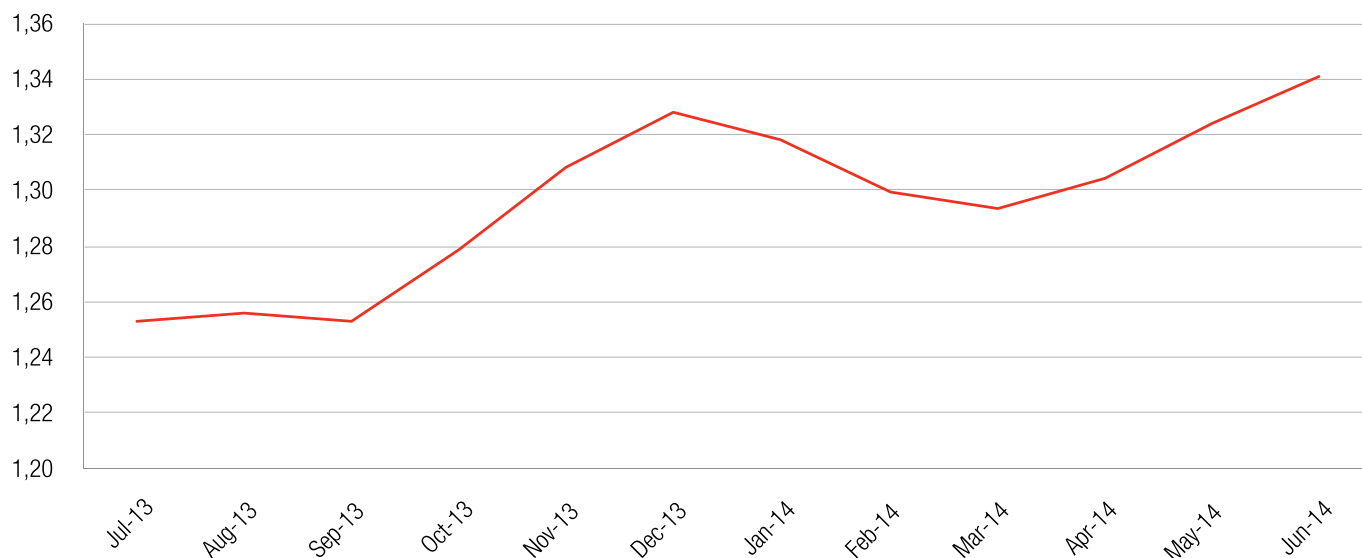
Top towns

Source: PayProp

Damage deposit ratios increase again

For a while there we thought we'd seen the back of rising damage deposit ratios, when at the end of Q1 a sustained dip brought that number to 1,29%. In the last quarter, however, we have seen a resurgence to 1,34%, the highest it has been in 12 months.

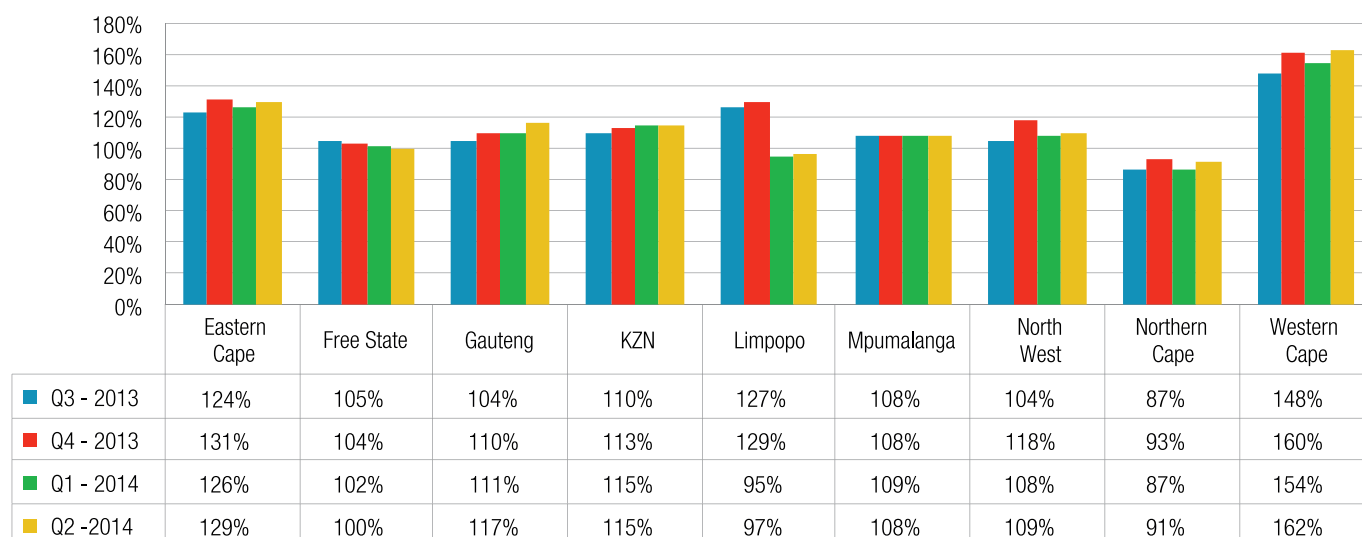
This could point to increased landlord concerns over tenants' ability to pay. The latest Tenant Profile Network (TPN) quarterly report again shows a decline in tenant payment data. In another manifestation of landlords' concern, the market has also seen strong growth in the use of deposit replacement products¹.



National damage deposit ratio

Source: PayProp

The Western Cape remains the province where landlords are able to extract the highest deposits relative to monthly rentals. On the other end of the spectrum, despite rapid growth of the rental market in the Northern Cape, landlords in that province receive the lowest damage deposits at only 91% of the average rental.



Damage deposit ratios

Source: PayProp

¹ Such as the PayProp DepositGuarantee

Investor returns stable

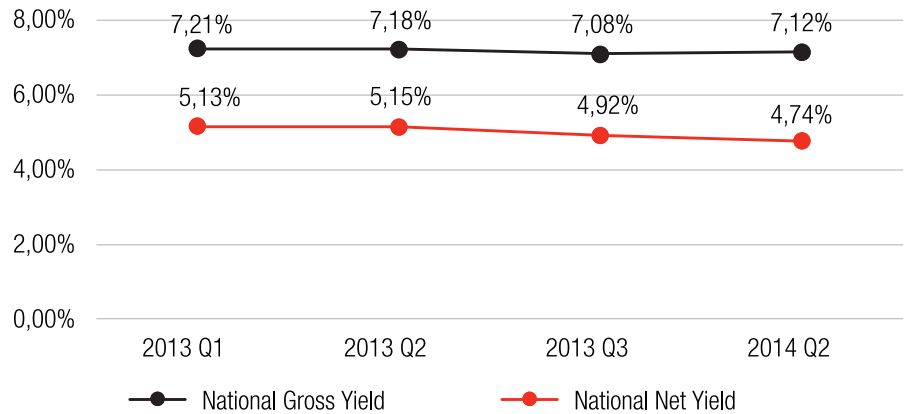
Investor returns have declined marginally over the last two quarters – the result of the weighted average house value growing by 2,55% on a quarter-to-quarter basis, compared to rental growth of only 2,1%. This accounts for a drop in the gross yield from 7,21% to 7,12%.

At a net yield level, the declining trend is further exaggerated by an increase in the cost of ownership, from 29% a year ago to 33% at the end of this quarter.

We calculate the cost of ownership by deducting the amount invoiced per property from the actual payment made to the owner – which gives the most accurate reading of what it costs to manage and maintain the property.

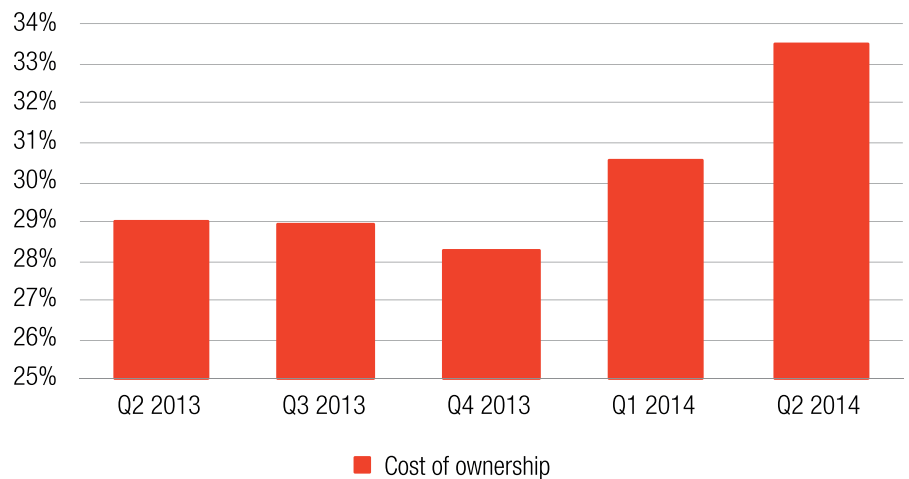
When expressed as the net income relative to the value of the property, this number also provides us with an accurate net yield percentage.

Ordinarily, high rentals increase investor yields. An interesting provincial anomaly in this regard has emerged in the Northern Cape, where the rental boom appears to have had a role in equally dramatic increases in house prices in the area. Consequently, yields there have been declining over time. With their extremely high rentals, Limpopo and Mpumalanga offer a more conventional proposition. Property investors here earn the highest net yields in the country.



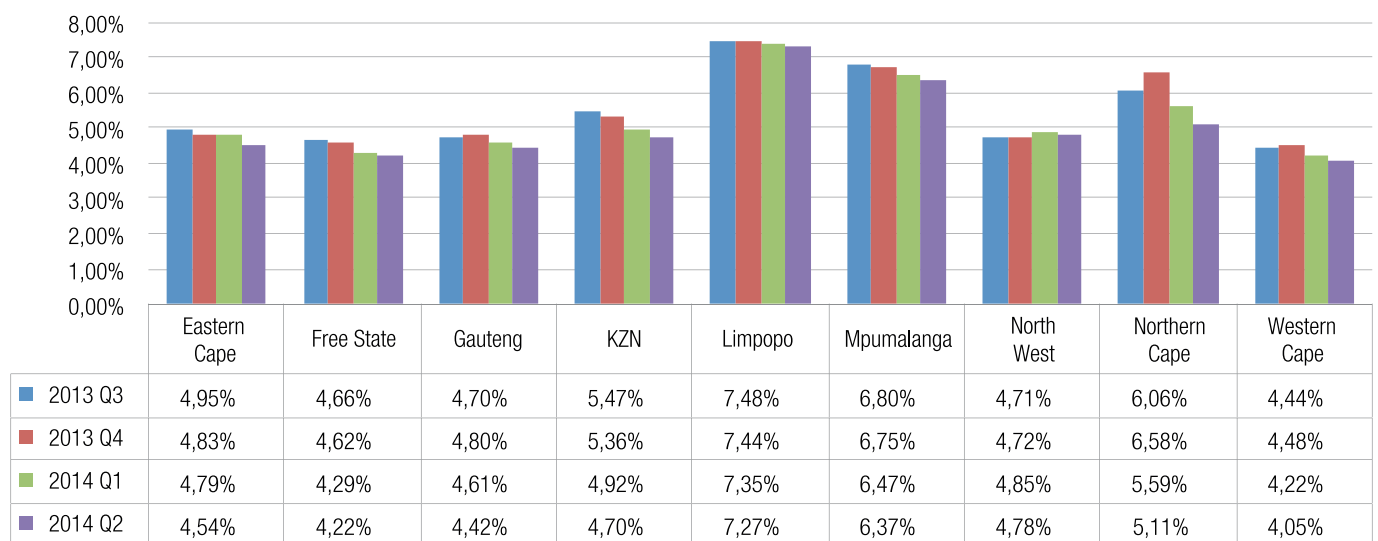
National Gross and Net Yields

Source: PayProp



National cost of ownership

Source: PayProp

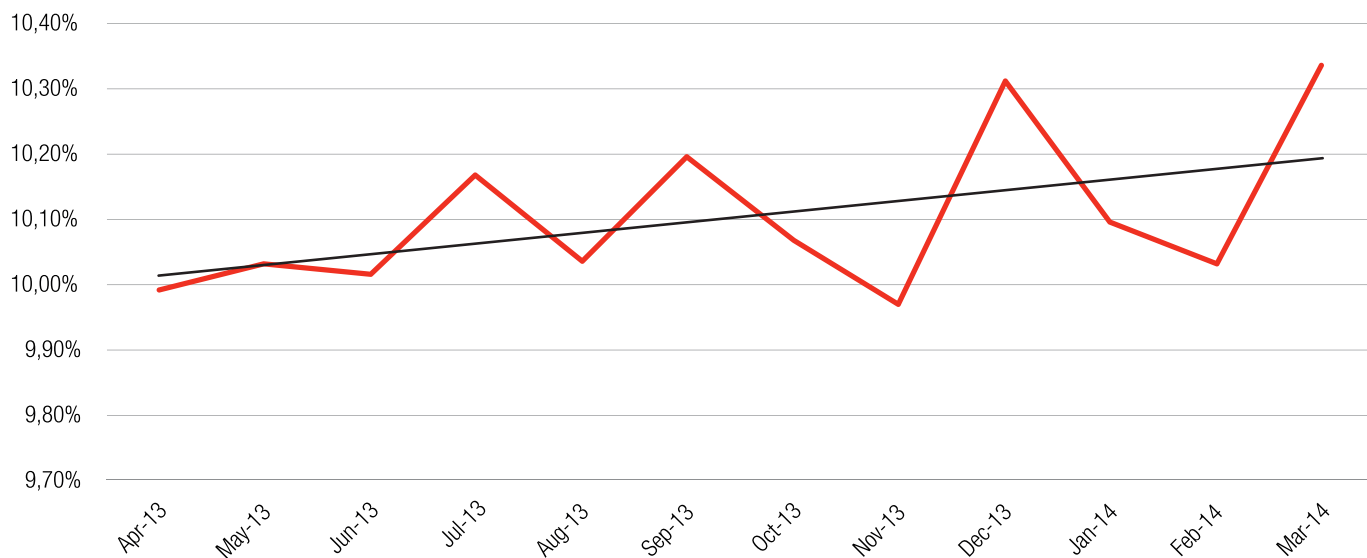


Provincial net yields

Source: PayProp

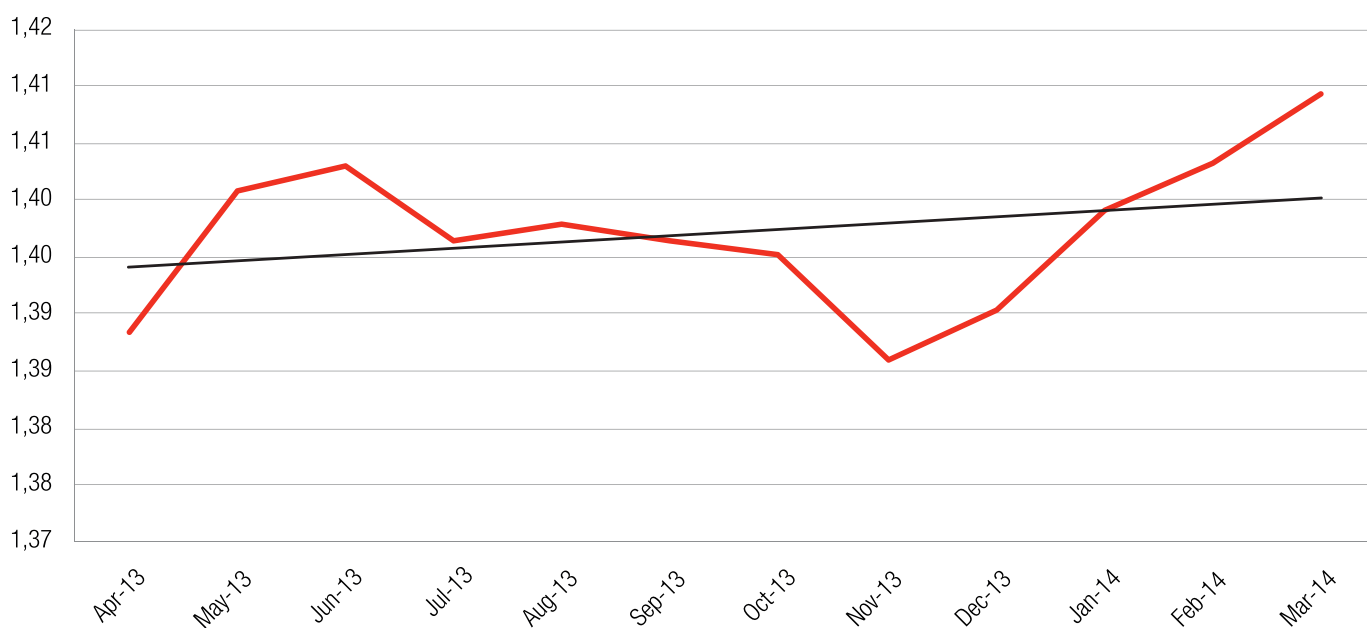
Commissions and ownership

Finally, it is good to see that agents are standing their ground, with average commissions mostly staying above the 10% mark for the last 12 months. Owners on the other hand are continuing to grow their portfolios, with the average owner on PayProp now owning 1,41 properties.



National average commission

Source: PayProp



Average properties per owner

Source: PayProp

About the PayProp Rental Index

The PayProp Rental Index is a quarterly guide on trends in the South African residential rental market, and is compiled from actual transactional data collected by PayProp, the largest processor of residential letting transactions in South Africa. This edition details market conditions for the second quarter of 2014.

Contact details

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The benefits of PayProp



GROWTH

Computerise all your back office admin so that your team can focus on signing new landlords and growing the business.



ALERTS

Receive notifications when tenants haven't paid rent. PayProp warns you 2 months before tenancies end, so you can advertise early and avoid losses.



ACCOUNTS

Your accountant will love PayProp as it provides detailed accounting records including contractor invoices.



AUTOMATIC

Forget spreadsheets and bank statements, PayProp automatically reconciles all rent payments clearly showing who has and hasn't paid rent.



ACCURATE

Reduce errors with ring-fenced funds. Only when money has been paid into a property can it be paid out.



EFFICIENT

Once set up, PayProp runs on its own, invoicing tenants every month and paying money to landlords on collection, freeing you to focus on your business.



TRANSPARENT

Receive clarity on the trust account status with bank data that is refreshed every 30 minutes.



TEAM

Create unlimited free users, set their permissions to ensure control and track their performance.



CLOUD BASED

No new servers or hardware needed, easy set up and friendly contract and notification terms.



FAST

On receipt, collected rent can automatically be paid to landlords in 24 hours.



SIMPLE

Monthly invoices are automatically sent by email & SMS to tenants, reducing arrears. Landlords receive automatically generated rental statements every month.



SUPPORT

Receive unlimited free support from a locally based specialist team.



ORGANISE

Set reminders, tagged by property and date, to help stay organised and schedule work.



SECURITY

Your files, documents and information are safely backed up, easily accessible and protected by bank level security.



NEXT STEP

To trial PayProp get in contact by emailing support@payprop.co.za

It's true – time is money.

How much are you wasting each month with inefficient and wasteful administration of your rental portfolio?



PayProp is the only fully integrated property management, transaction and trust accounting platform, allowing the average PayProp client to manage more properties with less paper and less hassle. Grow your income without growing your frustration.

To find out how PayProp can help you run a safer and more efficient rental portfolio, visit www.payprop.co.za or call 087 820 7368.

